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INFO 350: Critical Essay

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### The relationship between Privacy and Economics

Privacy is defined as having the ability for individuals to hide themselves or the information about themselves as they please. In his paper, "The Economics of Privacy", Richard A. Posner describes the effects of having privacy of information on markets. Posner starts his paper by writing that there should be greater attention to the interaction between privacy and economics as he has come to believe that increased information privacy will lead to inefficiency in the economy. He states that there is a clear relation between information privacy and market efficiency, yet unfortunately until recently economists have not paid much attention to the economic effects of privacy. In my essay, I will first analyze and describe Posner's arguments, then follow this by highlighting deficiencies in his explanations.

In order to develop his argument Posner first asserts decreased privacy of information will lead to efficiency in markets as more information becomes readily available. An example that he provides is one that describes the interaction between an employer and a potential employee. During the hiring and interview process, the employer will be looking for desirable traits such as honesty, loyalty, and diligence. At the same time, the potential employee will attempt to mask any deficiencies to increase their chances of receiving a job offer. The potential employee could hide important information such as criminal history, issues with temperament, and other negative tendencies. This ability to conceal information, according to Posner, creates an inefficient sorting of employees to employers as people who might not be completely adequate for a position are hired.

Posner continues to give several more examples in order to reinforce his argument. He compares the process of employment to people courting partners and a shopkeeper selling goods. In all these circumstances, a person is attempting to “sell” something to “buyers”. In the case of applying for a job, the applicant is attempting to sell themselves to the employer. When it comes to seeking marriage, all people involved try to sell themselves to the other. The shopkeeper sells goods to customers. Dishonesty and hiding information again lead to inefficiency in all of these cases, according to Posner. In a relationship hiding information will mostly likely result in disaster, and there would certainly be negative ramifications if the shopkeeper attempted to conceal information about defects in their goods.

Posner follows this with a second premise; certain groups will unfairly benefit if legislation is passed that allows individuals to conceal their information. He explains that legislation to increase information privacy will principally reward those with more arrests or convictions, or with poorer credit records than the average person. This, coupled with the push not to discriminate against certain groups, will again lead to those that are underqualified being hired over those that are qualified. This would happen as job applicants use new legislation to hide information that employers would want to know (such as their criminal record). Posner claims that they could even continue with their criminal tendencies which would lead to marketplace inefficiency and negative welfare in society.

Posner combines these arguments into the conclusion that there should be more information made available in the market in order to preserve economic efficiency. As people are given the ability to conceal relevant information about themselves, and certain groups benefit from this ability, economic inefficiency will occur as those that are underqualified are hired over those that are more qualified.

However, I found several problems with Posner's argument. His main issue lies with his first premise, that information privacy will always result in market inefficiency. He incorrectly assumes that having a past that may not be desirable to an employer will lead to the employee not being able to properly perform their job. Many people may have changed since they last committed a crime, or perhaps they have a mental illness that would not affect their ability to work but affects their chances of getting hired. If information about criminal history being made available to employers lead to these ex-criminals not being hired, this could also be seen as a continuation of their punishment as they find it difficult to move from their past.

In fact, not hiring as a group of people that have the potential to perform well there could even lead to market inefficiency itself as those potential employees are snubbed. Having the ability to protect one's own information could also be seen as a form of social insurance by providing a buffer against the consequences of having personal information being readily available to others. It is the general trend that legislation is being added to protect people's information, as people should be able to disclose the information that they choose.

Posner makes a valid argument for information freedom by providing several reasons why information privacy should be decreased. However, his explanation sometimes falls short as they make assumptions that may not be true. In order to properly evaluate the relation between information privacy and economics, more research needs to be done on the advantages and disadvantages of increased privacy of information.